

**REPORT OF
EXAMINATION
OF**

**RED MOUNTAIN CASUALTY INSURANCE
COMPANY, INC.**

**AS OF
DECEMBER 31, 2002**

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF Jefferson

Mary B. Packard, being first duly sworn, upon her oath

deposes and says:

That she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of Red Mountain Casualty Insurance Company, Inc. for the period of January 1, 1998 through December 31, 2002;

That the following 22 pages constitute the report thereon to the Commissioner of Insurance for the State of Alabama Department of Insurance;

And that the statements, exhibits, and data therein contained are true and correct to the best of her knowledge and belief.

Mary B. Packard
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this 22nd day of August, 2003.

Tonia King
(Signature of Notary Public)

TONIA King, Notary Public
(Print Name)

in and for the State of Alabama.

My Commission expires 6-20-04



BOB RILEY
GOVERNOR

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DEPUTY COMMISSIONER
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RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

August 22, 2003
Birmingham, Alabama

Honorable Walter A. Bell, Commissioner
Alabama Department of Insurance
Post Office Box 303350
Montgomery, AL 36130-3350

Dear Commissioner:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

RED MOUNTAIN CASUALTY INSURANCE COMPANY, INC.
Birmingham, Alabama

at its Home Office located at 100 Brookwood Place, Birmingham, Alabama 35209, as of December 31, 2002. The report of examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to indicate Red Mountain Casualty Insurance Company, Inc.

SCOPE OF EXAMINATION

The Company was last examined for the five-year period ended December 31, 1997 by examiners from Illinois. The current examination covers the intervening period from the date of the last examination through December 31, 2002 and was conducted by examiners from Alabama. The examination was conducted concurrently with the examination of an affiliated company, The Medical Assurance Company, Inc. (TMAC), Birmingham, Alabama. Where deemed appropriate, transactions subsequent to 2002 were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department's regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, and a general review of records and files pertaining to operations, administrative practices and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2002 as shown in the Financial Statements contained herein. However, the discussion of assets and liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the Alabama Insurance Code and the Insurance Department's rules and regulations or other insurance laws or rules, or which are deemed to require comments or recommendations.

A Company office copy of the filed Annual Statement for the year 2002 was compared with or reconciled to account balances with respect to ledger items.

The market conduct review consisted of a review of the Company's plan of operation, territory, policy forms and underwriting practices, dividends to policyholders, advertising, claims payments, policyholder complaints and compliance with agents' licensing requirements.

The Company's accounts were examined by Ernst and Young, LLP, certified public accountants (E&Y), for the years of 2001 and 2002 with the 2002 audit being conducted during the examination. PricewaterhouseCoopers, LLP audited the Company in 1999 and 2000, while KPMG Peat Marwick, LLP performed the audit in 1998. As the 2002 audit was being conducted at the same time as the examination, no audit reports, management letters or audit workpapers were made available for review. The Company does not maintain an internal audit department; however, its ultimate parent, ProAssurance, Inc., does maintain an internal audit department which services the parent and all its subsidiaries.

A signed letter of representation was obtained during the course of the examination. In this letter, management attests to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2002.

ORGANIZATION AND HISTORY

ProNational Casualty Company (formerly known as PICOM Insurance Company of Illinois) was incorporated on December 5, 1994 under the provisions of the Illinois Insurance Code. On January 5, 1995, the Illinois Director of Insurance issued a Certificate of Authority to transact all lines of business enumerated in Class 2 except (k) and 3, Section 4 of the Illinois Insurance Code. Paid in capital of \$12,400,000 consisted of 1,000,000 shares of \$1 par value common stock and \$11,400,000 of contributed surplus. Authorized stock of the Company was as follows:

- 8,000,000 shares authorized – common stock
- 1,000,000 shares issued and outstanding common stock
- 2,000,000 shares authorized – preferred stock
- 0 shares issued and outstanding preferred stock

ProNational Casualty Company was a wholly-owned subsidiary of ProNational Insurance Company (ProNational) (formerly known as PICOM Insurance Company), Okemos, Michigan. ProNational was incorporated on June 27, 1980 under the laws of Michigan as Physicians Insurance Company of Michigan.

An Assumption Reinsurance Agreement, effective as of December 31, 1997, between ProNational and the Company was approved by the Director of the Illinois Insurance Department on November 4, 1997. All of the Company's liabilities and obligations arising under its policies were ceded to ProNational. From that time, the Company did not write any new business. The Company began writing surplus lines for medical malpractice liability business on October 1, 2002.

The Company redomesticated and reincorporated as an Alabama corporation on September 9, 2002 pursuant to the laws of the State of Alabama. On September 13, 2002, the Company changed its name to Red Mountain Casualty Insurance Company, Inc.

MANAGEMENT AND CONTROL

The Company operates on the proprietary plan with control held by the shareholder and within the corporate powers and management authority exercised by the Board of Directors. Detailed comments on the various proprietary and management bodies follow under separate subsections.

Shareholder

The Company is 100% owned by ProNational Insurance Company. Both companies are ultimately owned by ProAssurance Corporation. During the period under review, regular annual meetings were held in 1998, 1999, 2000, 2001 and 2002. A special shareholder's meeting was held in June 2002 for the purpose of approving the Articles of Redomestication and Incorporation, of surrendering the Company's Certificate of Authority to transact business in the State of Illinois, of appointing Aubrey Derrill Crowe, Robert David Francis and James Joseph Morello to serve as members of the Board effective upon the approval of the redomestication of the Company to Alabama, and of accepting the resignations of the following Board members being Robert E. Paxton, M.D., Ronald B. Fiscella, M.D., Raymond K. Weber, M.D., and Valerie G. Purdy.

Board of Directors

Directors are elected for one year terms by the shareholder. Directors elected on December 31, 2002 were as follows:

<u>Director</u>	<u>Residence</u>
Aubrey Derrill Crowe, M.D.	Birmingham, AL
Victor Thomas Adamo	Birmingham, AL
Howard Harley Friedman	Birmingham, AL

Committees

Investment Committee:

The investment committee of the Company's parent reviewed the portfolios of all its subsidiaries during the period under examination and found the securities to be in compliance with the Company's investment guidelines with one exception (see Note 1 – Bonds). The Company's investment managers were Prime Advisors, Inc., and Conning Asset Management. The committee approved the purchases and sales of securities for the period under examination.

Members of the investment committee at December 31, 2002 consisted of the following directors and officers:

Victor Thomas Adamo
James Joseph Morello

Mr. Morello was not a member of the Board of Directors and therefore his appointment to the investment committee was not in compliance with ALA. CODE §10-2b-8.25 (a) (1975), which states “Unless the articles of incorporation or bylaws provide otherwise, a board of directors may create one or more committees and appoint members of the board of directors to serve on them.”

Executive and Reinsurance Committees:

The Company had established an Executive Committee and a Reinsurance Committee in 2002. No minutes or any other evidence of these committees meetings were provided to the examiners as no meeting had been conducted.

Members of the Executive Committee and Reinsurance Committee at December 31, 2002 consisted of the following director and officer:

Victor Thomas Adamo

Officers

Officers are elected for a term of one year by the Board of Directors. Principal officers elected and serving at December 31, 2002 were:

Chairman	Aubrey Derrill Crowe, M.D.
Chief Executive Officer/President	Victor Thomas Adamo
Treasurer	James Joseph Morello
Senior Vice Presidents	Robert David Francis
	Darryl Keith Thomas
Secretary	Kathryn Anne Neville
Assistant Secretaries	Jeffrey Patton Lisenby
	Howard Harley Friedman
Assistant Treasurers	Larry Keith Chamblee
	Howard Harley Friedman

Conflict of Interest Statements

As the Company redomesticated to the State of Alabama in September 2002, a review was conducted of the signed Conflict of Interest Statements for 2002 only. No conflicts were noted.

CORPORATE RECORDS

The Articles of Redomestication and By-Laws, as amended, were inspected during the course of the examination and appeared to provide for the operation of the company in accordance with usual corporate practice and applicable statutes and regulations.

ALA.. CODE §27-27-22 (c) (1975) states "The insurer shall promptly file with the commissioner a copy, certified by the insurer's secretary, of its by-Laws and of every modification thereof or addition thereto." It was noted that the By-Laws provided by the Company had not been modified to reflect the redomestication to the State of Alabama. The Board of Directors had approved the modifications at the September 2002 meeting, but the By-Laws were not submitted to the Commissioner until June 2003.

The Company's By-Laws state that the Board of Directors may appoint an Executive Committee to consist of at least three directors of the Company. The Company had an Executive Committee; however, it consisted of only one member.

Article VI, Section 1 of the Company's Amended and Restated By-Laws state that all checks in the amount of \$5,000 or more must be signed by at least two directors or employees. It was noted that the Treasurer, was authorized to sign alone on all accounts. There was no limit associated with his signature.

HOLDING COMPANY AND AFFILIATED MATTERS

Holding Company

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975) as amended. In connection therewith, the Company is registered with the Alabama Department of Insurance as joint registrant of an Insurance Holding Company System.

Appropriate filings required under the Holding Company Act are made from time to time by the Company as joint registrant. A review of the Company's filings during the period under review did not disclose any omissions in the Company's filings.

Dividends to Stockholders

There were no dividends to stockholders during the period under examination.

Management and Service Agreements

The Company was a party to certain management and service agreements with various companies in the Holding Company System. The following three sections describe the agreements that were in effect at December 31, 2002.

1. Expense Allocation Agreement between the Company and ProNational Insurance Company

The Company and ProNational Insurance Company (ProNational), entered into an agreement effective January 1, 1996. The agreement allocated direct expenses and claims expense to the company incurring such expenses. It also allocated indirect expenses to be allocated on a closely estimated basis on the written premiums for each company. The agreement also limited the expenses of the Company to preserve the statutory surplus. The "Other Underwriting Expenses to Net Premium Written" ratio of the Company shall not exceed the "Other Underwriting Expenses to Net Premium Written" ratio of ProNational due to the effect of reinsurance agreements with ProNational. In addition, the Company shall not be charged with amounts which would have the effect of materially impairing its surplus with regard to policyholders or cause its surplus to fall below the minimum level required.

2. Tax Allocation Agreement for ProAssurance Corporation and its subsidiaries

The Company was a participant in a consolidated tax agreement with its ultimate parent, ProAssurance Corporation, and all its subsidiaries (Group) effective June 27, 2001. The agreement was filed on the May 9, 2002 Form B and was approved by the Alabama Department of Insurance on December 20, 2002.

The Group agreed and elected to file a consolidated federal income tax return pursuant to the provisions of IRS Section 1501. The method of allocation is pursuant to Regulation Section 1.1552-1(c). Tax liability will be allocated among the Group according to a ratio of each member's taxable income to the consolidated taxable income. The calculation will be pursuant to Regulation Section 1.1552(a)(1). Amounts shall be paid on applicable due date. Compensating payments will be made in accordance with Regulation Section 1.1502-33 (d)(2)(ii).

The term is from day of execution until termination by the mutual agreement of the Group. Termination is subject to approval by the IRS, in accordance with Regulations Sections 1.1502-33(d)(3) and 1.1552-1(c). Termination of the agreement to a certain company is automatic when any member ceases to be affiliated with the Group. Amendments, modifications, and supplements shall be mutually agreed upon by the Group. Invalidation, whether judicial or otherwise, of any article,

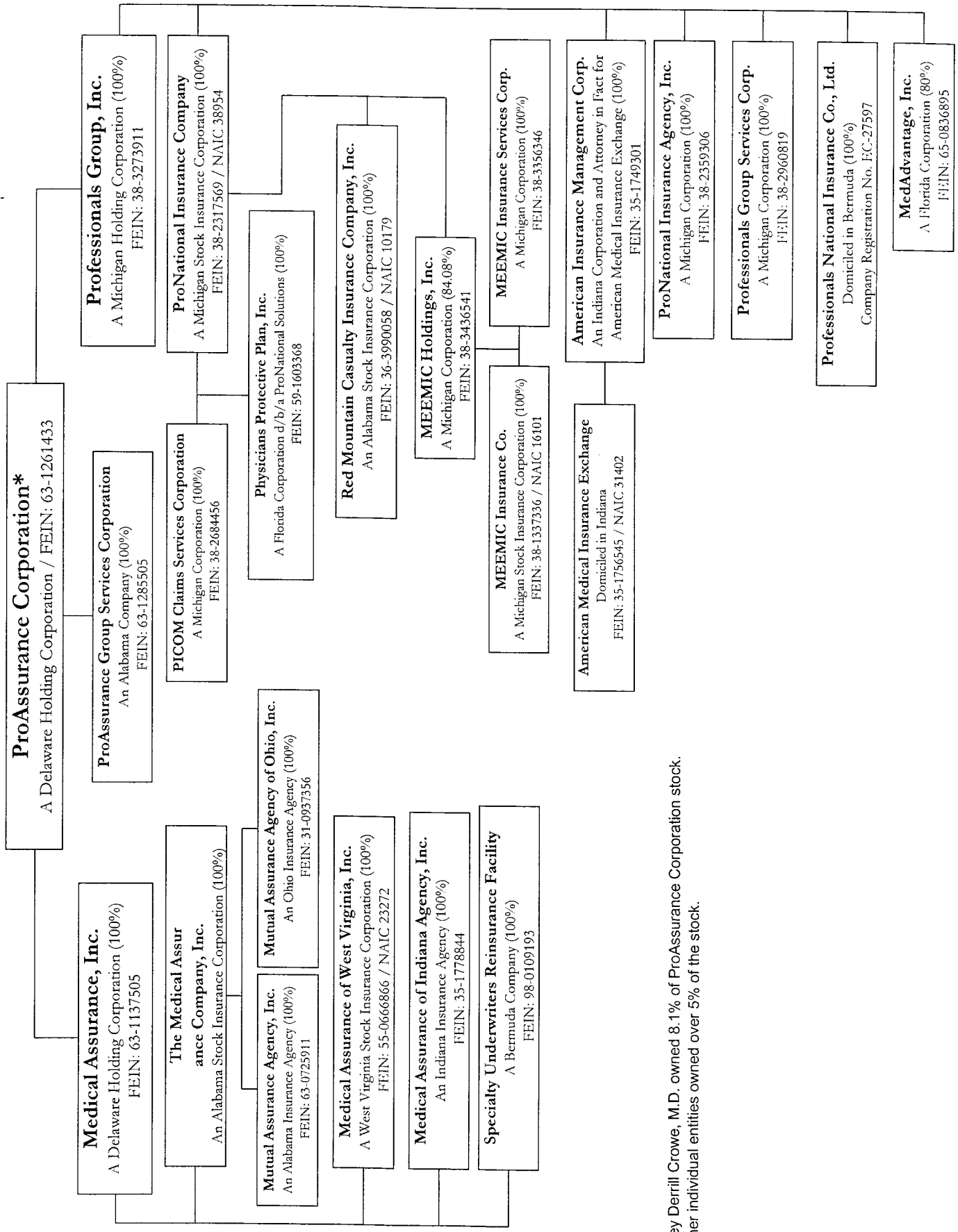
term, condition or provision contained in this agreement shall in no way affect any other provisions of this agreement, all of which shall remain in full force and effect.

3. Quota Share Reinsurance Contract between the Company and ProNational Insurance Company

The Company entered into a Quota Share Reinsurance contract with ProNational Insurance Company effective October 1, 2002. The agreement was approved on December 23, 2002 by the Alabama Department of Insurance. The contract reinsures all policies or insurance written or renewed by the Company. The Company shall cede and ProNational shall accept 100% quota share of the Company's gross liability on risks under all policies covered. The Company shall pay ProNational 100% of premiums written less a ceding commission to be agreed annually of between 20% and 30%.

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2002.



*Aubrey Derrill Crowe, M.D. owned 8.1% of ProAssurance Corporation stock.
No other individual entities owned over 5% of the stock.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2002, the Company was named as an insured on a Financial Institutions Bond issued to ProAssurance Corporation, the Company's ultimate parent, by the Cincinnati Insurance Company. Coverage was provided in accordance with the NAIC suggested minimums.

During the period covered by this examination, the Company also maintained the following coverages:

- Commercial Package policy
- Commercial Inland Marine
- Employee Benefits Liability
- Directors and Officers Liability
- Workers' Compensation
- Employment Practices Liability
- Commercial Umbrella policy
- Commercial Automobile

EMPLOYEE AND AGENT WELFARE

The Company had no employees or agents. All services were provided to the Company by employees of ProNational Insurance Company, the Company's parent. Expenses were allocated in accordance with the expense allocation agreement that is discussed under HOLDING COMPANY AND AFFILIATE MATTERS section of this report, under the caption "Management and Service Agreements."

SCHEDULE OF SPECIAL DEPOSITS

The Company had on deposit the following amounts at December 31, 2002.

LOCATION	PAR VALUE	STATEMENT VALUE	FAIR VALUE
State of Alabama	\$ 110,000	\$ 115,388	\$ 115,865
State of Michigan	<u>100,000</u>	<u>109,985</u>	<u>110,543</u>
TOTALS	<u>\$ 210,000</u>	<u>\$ 225,373</u>	<u>\$ 226,408</u>

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review.

	1997*	1998	1999	2000	2001	2002*
Admitted Assets	\$10,515,987	\$10,787,718	\$11,089,505	\$11,603,704	\$12,076,929	\$17,951,539
Liabilities	335,883	183,000	50,000	45,000	70,000	2,122,134
Common capital stock	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Gross paid in and contributed capital	11,400,000	11,400,000	11,400,000	11,400,000	11,400,000	14,466,528
Unassigned funds (surplus)	(2,219,896)	(1,795,282)	(1,360,495)	(841,296)	(393,071)	362,877
Premiums earned	(6,652,955)	0	0	0	0	0
Losses incurred	(3,791,771)	0	0	0	0	0

*Per Examination

MARKET CONDUCT ACTIVITIES

Territory and Plan of Operation

On April 29, 2002, the Company was licensed in the State of Alabama as a property and casualty insurer, offering surplus lines for professional liability insurance. The Company started writing business again in October 2002 after ceding all its business to ProNational Insurance Company (ProNational), its parent, in a reinsurance assumption agreement effective December 31, 1997.

As of December 31, 2002, the Company's book of business consisted of 35 claims-made physician and dentist policies written in the states of Georgia, Illinois, Kentucky and Tennessee. The Company marketed its products through brokers outside of the State of Alabama. The Company ceded 100% of the loss and loss adjustment expenses on written business to ProNational.

Dividends to Policyholders

There were no dividends paid to policyholders during the period under examination.

Advertising

The examiners reviewed the advertising provided by the Company and found that it complied with ALA. CODE §27-12-14 (1975).

Claims Review

As of December 31, 2002, the Company had no open or closed claims.

Policyholder Complaints

No complaints were made for the five years under examination.

Compliance with Agents' Licensing Requirements

The Company had no agents. The Company had only two brokerages appointments - Healthcare Professional Services, Inc. (HPS), licensed in the State of Georgia and Mutual Assurance Agency (Agency), licensed in the State of Alabama. HPS served as a wholesale broker and placed the vast majority of the business. HPS used local, resident agents in each state to produce the business, and because the Company is a surplus lines carrier, the Company did not need to appoint these agents.

REINSURANCE

Assumed

The Company did not assume any reinsurance during the period of examination.

Ceded

As of December 31, 1997, the Company signed an Assumption Reinsurance Agreement in which the Company ceded all its past and future claims liabilities to its parent, ProNational Insurance Company (ProNational). From then until October 2002, the Company did not write any business.

The Company and ProNational signed a 100% Quota Share Reinsurance agreement effective October 1, 2002 in which the Company will cede 100% of its gross liability on risks under all policies covered. With respect to losses in Excess of Policy Limits and Extra Contractual Obligations, the gross liability assumed by the ProNational shall be limited to either the amount actually recovered by ProNational to the extent that retrocessional reinsurance is in place on behalf of ProNational and applicable to such losses or to \$1,000,000. The agreement called for the Company to cede 100% of its gross written premiums less a ceding commission to be agreed annually of between 20% and 30%.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained primarily on electronic data processing (EDP) equipment. The Company uses a system to maintain files on claims and underwriting, including premiums. The Company installed a new general ledger system in November 2002. The systems interface as needed.

The Company was audited annually by an independent certified public accounting firm. Ernst & Young, LLP, (E&Y) Birmingham, Alabama conducted the Company's audit for 2001 and is currently conducting the 2002 audit. As the 2002 audit was being conducted at the same time as the examination, no workpapers were made available for review so none were utilized in this examination.

The actuarial firm of Tillinghast-Towers Perrin, Atlanta, Georgia, was retained by the Company throughout the examination period and prepared the 2002 Statutory Loss Reserve Opinion and the Statement of Actuarial Opinion. The reserve calculations were certified by Mr. James D. Hurley, ACAS, MAAA, a qualified actuary.

Accounting, data processing, clerical and administrative services were provided by ProNational Insurance Company, under a management agreement. Further discussion on this agreement and other management and service contracts is included in the "HOLDING COMPANY AND AFFILIATE MATTERS" section of this report, under the caption "Management and Service Agreements."

As of December 31, 2002, the Disaster Recovery Plan has not been fully tested. The Information Systems department has only tested the plan in sections. The plan should be completely tested to determine if it is reliable or if any modifications should be made. Written documentation of the test results should also be prepared and maintained.

The Company did not have an Electronic Records Retention Policy in effect at December 31, 2002. Alabama Department of Insurance Regulation Number 118 §3 states "...every domestic insurer...shall maintain its books, records, documents and other business records...for no less than five years." Therefore, it is recommended that the Company establish such policy in accordance with Regulation 118. The Company should also have such programs in effect to ensure that records are retained adequately, in accordance with IRS Revenue Procedure 1998.

FINANCIAL STATEMENTS INDEX

The Financial Statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2002. Amounts shown in the comparative statements for the years 1998, 1999, 2000, and 2001 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

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**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART
THEREOF.**

RED MOUNTAIN CASUALTY INSURANCE COMPANY, INC.

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2002

<u>ASSETS</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds (Note 1)	\$ 12,221,374		\$ 12,221,374
Cash and short-term investments (Note 2)	5,173,808		5,173,808
Premiums and agents' balances in course of collection	168,807		168,807
Premiums, agents' balances and installments booked but deferred and not yet due	236,542		236,542
Interest, dividends and real estate income due and accrued	151,008		151,008
Other assets not admitted	11,257	11,257	-
TOTAL ASSETS	\$ 17,962,796	\$ 11,257	\$ 17,951,539

LIABILITIES

2002

Loss adjustment expenses	\$ 17,398
Commissions payable, contingent commissions and other similar charges	26,270
Other expenses (Note 3)	18,362
Federal and foreign income taxes	84,480
Advance premiums	24,357
Ceded reinsurance premiums payable	1,900,365
Payable to parent, subsidiaries and affiliates (Note 4)	50,902
TOTAL LIABILITIES	\$ 2,122,134

SURPLUS

Common capital stock (Note 5)	\$ 1,000,000
Gross paid in and contributed surplus	14,466,528
Unassigned funds (surplus) (Note 6)	362,877
Surplus as regards policyholders	\$ 15,829,405
TOTAL LIABILITIES AND SURPLUS	\$ 17,951,539

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART
THEREOF.**

RED MOUNTAIN CASUALTY INSURANCE COMPANY, INC.

STATEMENT OF INCOME

For the Years ended December 31, 1998, 1999, 2000, 2001, and 2002

	1998	1999	2000	2001	2002
<u>UNDERWRITING INCOME</u>					
Premiums earned	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Deductions</u>					
Losses incurred	-	-	-	-	-
Loss expenses incurred	-	-	-	-	17,398
Other underwriting expenses incurred	<u>73,733</u>	<u>27,757</u>	<u>5,921</u>	<u>13,898</u>	<u>(361,175)</u>
<u>Total underwriting deductions</u>	<u>\$ 73,733</u>	<u>\$ 27,757</u>	<u>\$ 5,921</u>	<u>\$ 13,898</u>	<u>\$ (343,777)</u>
<u>Net underwriting gain (loss)</u>	<u>\$ (73,733)</u>	<u>\$ (27,757)</u>	<u>\$ (5,921)</u>	<u>\$ (13,898)</u>	<u>\$ 343,777</u>
<u>Investment income</u>					
Net investment income earned	\$ 651,738	\$ 611,983	\$ 675,822	\$ 657,333	\$ 590,210
Net realized capital gains (losses)	<u>732</u>	<u>-</u>	<u>1,187</u>	<u>19,868</u>	<u>22,577</u>
<u>Net investment gain (loss)</u>	<u>\$ 652,470</u>	<u>\$ 611,983</u>	<u>\$ 677,009</u>	<u>\$ 677,201</u>	<u>\$ 612,787</u>
<u>Other income</u>					
Net gain or (loss) from agents' or premium balances charged off	\$ 404	\$ -	\$ -	\$ -	\$ 8,300
Aggregate write-ins for miscellaneous income	<u>-</u>	<u>2,014</u>	<u>4,594</u>	<u>-</u>	<u>-</u>
<u>Total other income</u>	<u>\$ 404</u>	<u>\$ 2,014</u>	<u>\$ 4,594</u>	<u>\$ -</u>	<u>\$ 8,300</u>
Net income before federal and foreign income taxes	\$ 579,141	\$ 586,240	\$ 675,682	\$ 663,303	\$ 964,864
Federal and foreign income taxes incurred	<u>180,000</u>	<u>162,000</u>	<u>181,000</u>	<u>220,000</u>	<u>197,670</u>
<u>Net Income</u>	<u><u>\$ 399,141</u></u>	<u><u>\$ 424,240</u></u>	<u><u>\$ 494,682</u></u>	<u><u>\$ 443,303</u></u>	<u><u>\$ 767,194</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART
THEREOF.

RED MOUNTAIN CASUALTY INSURANCE COMPANY, INC.

CAPITAL AND SURPLUS ACCOUNT
As of December 31, 1998, 1999, 2000, 2001 and 2002

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Surplus as regards policyholders, December 31 prior year	<u>\$ 10,180,104</u>	<u>\$ 10,604,718</u>	<u>\$ 11,039,505</u>	<u>\$ 11,558,704</u>	<u>\$ 12,006,929</u>
<u>Gains and (Losses) in surplus:</u>					
Net Income	\$ 399,141	\$ 424,240	\$ 494,682	\$ 443,303	\$ 767,194
Change in non-admitted assets	-	(10,725)	10,725	4,922	(11,246)
Surplus adjustments: Paid in	<u>25,473</u>	<u>21,272</u>	<u>13,792</u>	<u>-</u>	<u>3,066,528</u>
Change in surplus as regards policyholders for the year	<u>\$ 424,614</u>	<u>\$ 434,787</u>	<u>\$ 519,199</u>	<u>\$ 448,225</u>	<u>\$ 3,822,476</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$ 10,604,718</u></u>	<u><u>\$ 11,039,505</u></u>	<u><u>\$ 11,558,704</u></u>	<u><u>\$ 12,006,929</u></u>	<u><u>\$ 15,829,405</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART
THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

\$12,221,374

The above captioned amount is the same as reported in the 2002 Annual Statement.

The Company had one U.S. Treasury bond in the amount of \$1,750,000 that was held in the Illinois National Bank on December 31, 2002. ALA. CODE §27-27-29 (b) (1975) states that every domestic insurer shall have, and maintain, its assets in this state. This security was transferred to SouthTrust Bank in Alabama on January 6, 2003. Because this security was transferred to an Alabama financial institution within a week of the new year, the financial statements were not changed.

Note 2 – Cash and short-term investments

\$5,173,808

The above captioned amount is the same as reported in the 2002 Annual Statement.

The Company had a Class One money market fund that was listed on Schedule DA - Part 1 for \$53,000 less than shown on the bank confirmation. However, the bank confirmation included \$43,940 in the money market fund that the Company listed as Trust Cash on Schedule E - Part 1. The NAIC Annual Statement Instructions require that all Class One money market mutual funds be listed on Schedule DA – Part 1. Because this amount was immaterial, no changes were made to the financial statements.

According to SSAP No. 45, Section 8a on repurchase agreements, the reporting entity shall receive as collateral transferred securities having a fair value of at least equal to 102% of the purchase price paid by the reporting entity for the securities. If at anytime the fair value of the collateral is less than 100% of the purchase price paid by the reporting entity, the counterparty shall be obligated to provide additional collateral, the fair value of which, together with fair value of all collateral then held in connection with the transaction, at least equals 102% of the purchase price. The fair value of the Company's overnight repurchase agreement at December 31, 2002 was \$1,977,008 with a purchase price of \$1,977,000. Therefore, the fair value of the collateral should have been \$2,016,540 (102% of \$1,977,000).

Note 3 - Payable to parent, subsidiaries and affiliates

\$50,902

The above captioned amount is the same as reported in the 2002 Annual Statement.

It was noted that \$41,796 of the \$50,902 Payable to parent, subsidiaries and affiliates was deposited into the Company's account by mistake when it should have been deposited into ProNational Insurance Company, its parent.

It was noted that the Company was paid \$9,106 in intercompany expenses to affiliated companies without an agreement in place. With payments being made on behalf of the Company, there was no documentation evidencing that the amount was owed by the Company.

Note 4 - Common capital stock

\$1,000,000

The above captioned amount is the same as reported in the 2002 Annual Statement.

It was noted that the Company reported in its Annual Statements' General Interrogatories it had 2,000,000 authorized shares of preferred stock with none outstanding and 8,000,000 authorized shares of common stock with 1,000,000 outstanding. The Company did not provide the stock ledger for the examiner's review; however the Company did provide a copy of the Pre-Incorporation Subscription Agreement from 1994 in which the authorized shares of preferred and common stocks were reported as 2,000,000 and 8,000,000, respectively.

Note 5 – Unassigned funds (surplus)

\$362,877

The above captioned amount is the same as reported in the 2002 Annual Statement. No changes were made to the financial statements.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of representations made by management regarding the Company, a review of a report to the examiners on pending litigation made by Company counsel, and a general review of the Company's records and files conducted during the course of the examination including a review of claims. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

PRIVACY STANDARDS

The examiners reviewed the Company's privacy procedures and found the following:

1. The Company does not have a formal training manual. However, the Company does instruct its employees as to the normal procedures for day-to-day handling of nonpublic personal information. The information is distributed in the normal course of the Company's business to internal and affiliated persons only.
2. The Company does not accept an application unless the potential policyholder has signed an initial privacy notice.
3. The Company sent out the annual privacy notices to its policyholders.
4. The Company relays privacy information as a part of the Company's webpage.
5. The Company does not disclose any nonpublic information on its policyholders unless required by law. This includes personal health or financial information. For this reason, the Company does not need to provide opt-out statements to its policyholders.

Overall, the examiners determined that the Company was following the privacy procedures and standards contained in ALA. ADMIN. CODE 482-1-122 (2001).

SUBSEQUENT EVENTS

Per the Company's Investment Policy, the Board of Directors has designated the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Accounting Officer as Administrators to administer the investment management process. The Administrators shall serve as the Investment Committee and shall provide quarterly investment reports to the Board. ALA. CODE §27-41-5 (1975) states that regular reports of investments shall be submitted to the Board of Directors. As of June 26, 2003, the ProAssurance Corporation's Investment Committee had not provided investment reports to the Board of Directors. However, the Board had not met during this time period for the Investment Committee to give a report.

The following two agreements were signed subsequent to the balance sheet date.

Management Service Agreement between the Company, The Medical Assurance Company, Inc. (TMAC) and ProNational Insurance Company was effective January 1, 2003 and was approved in February 2003 by the Alabama Department of Insurance. TMAC shall be responsible for coordinating the delivery of management services as Manager. TMAC shall deploy the employees of TMAC and ProNational as required to provide the management services which includes accounting services, financial statements and tax returns; underwriting; reinsurance; sales and service; claims administration; information systems; administrative and other services; risk management; and delegation of duties whereby TMAC will use employees or engage consultants, advisors, investment managers and such other third-parties as required. Allocation of direct and indirect expenses was set forth in the Expenses Allocation Agreement discussed below.

Expense Allocation Agreement between TMAC, ProNational, the Company, Medical Assurance, Inc. Professionals Group, Inc. and ProAssurance Corporation was effective January 1, 2003 and was approved in February 2003 by the Alabama Department of Insurance. Direct expenses shall be allocated to the company incurring the expenses. Indirect expenses shall be allocated in a fair and reasonable method in conformity with customary insurance accounting practices to be consistently applied. The allocations shall be settled on a quarterly basis.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with the recommendation made in the previous examination report. This review indicated that the Company had complied with the prior recommendations.

IMPORTANT POINTS, COMMENTS AND RECOMMENDATIONS

Corporate Records – Page 5

It is recommended that the Company have By-Laws for the State of Alabama and submit a certified copy to the commissioner for approval in accordance with ALA. CODE §27-27-22 (1975).

It is recommended that the Company either comply with current By-Laws by having at least three members on their Executive Committee, dissolve such committee or amend the By-Laws.

It is recommended that the Company comply with their Amended and Restated By-Laws and require two or more signatures on checks in the amount of \$5,000 or greater.

Accounts and Records – Page 11

It is recommended that the Company establish an Electronic Records Retention Policy. This policy should be established in accordance with the minimum retention requirements of Alabama Department of Insurance Regulation Number 118 and with the IRS Revenue Procedure 1998.

It is recommended that the Disaster Recovery Plan be tested completely and have formal written documentation of the results on file.

Bonds – Page 17

It is recommended that the Company have, and maintain, all assets in the state of Alabama in accordance with ALA. CODE §27-27-29 (b) (1975).

Cash – Page 17

It is recommended that the Company list all Class One Money Market Mutual Funds on Schedule DA - Part 1 as required by the NAIC Annual Statement Instructions.

It is recommended that the Company receive as collateral transferred securities having a fair value at least equal to 102% of the purchase price paid as required by SSAP No. 45, paragraph 8.

Payable to parent, subsidiary and affiliate – Page 17

It is recommended that the Company accurately post transactions to the proper account.

It is recommended that the Company only pay intercompany expenses to related parties that are included in their Management Services Agreement or Expense Allocation Agreement or revise its agreements to include all fees which are charged through said agreement and file such agreement with the Alabama Department of Insurance in accordance with Regulation 55.

Common capital stock – Page 18

It is recommended that the Company maintain a stock ledger showing the number of preferred and common stock shares issued and outstanding.

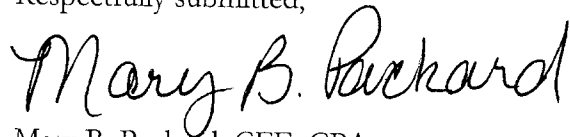
CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Jeff Hawkins, Jayne Simms and Lori Wright, Examiners; and R. Glenn Taylor, ACAS, MAAA, Consulting Actuary, all representing the Alabama Department of Insurance, participated in this examination of Red Mountain Casualty Insurance Company, Inc.

Respectfully submitted,

A handwritten signature in black ink that reads "Mary B. Packard". The signature is written in a cursive style with a large, prominent "M" and "P".

Mary B. Packard, CFE, CPA
Examiner-in-Charge
Department of Insurance
State of Alabama
Southeastern Zone, NAIC



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

December 18, 2002

Mr. Victor D. Adams
President
Red Mountain Casualty Insurance Company, Inc.
100 Brookwood Place, Suite 500
Birmingham, AL 35209

Re: Financial/Market Conduct Examination As Of December 31, 2002

Dear Mr. Adams:

This letter is to inform you of a financial/market conduct examination of your company called by the Alabama Department of Insurance and to authorize Mary Packard, CFE, Examiner, to conduct the examination. This authorization is pursuant to the instructions of Alabama Insurance Commissioner, D. David Parsons, and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners. The NAIC has required as an accreditation standard that examination reports be issued within eighteen (18) months of the "as of" date of the examination. This is requiring us to begin the examinations earlier to meet this requirement.

Your examination is to commence on or about January 27, 2003, and will be conducted primarily in your offices. The expected duration of the examination is approximately six months. Preliminary planning of your examination will first begin in the offices of the Alabama Department of Insurance. The examiner will arrive in your offices on or after this date. You will be contacted by Ms. Packard regarding the exact arrival date at your offices.

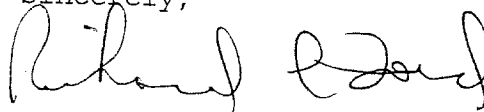
The Alabama Insurance Department has adopted work policies and rules governing work hours, leave and unacceptable conduct including sexual harassment. If you have any question about our examiner's conduct at your offices, please contact me immediately.

Mr. Victor D. Adams
Page 2
December 18, 2002

As part of your examination, the enclosed internal control and information systems questionnaire is required to be completed for review by our examiner. Please complete and return the questionnaire to this Department within 30 days, addressed to the attention of the Examiners' Division. The questions may be answered on the questionnaire itself or on a separate sheet if additional explanation is required. If possible, your CPA's workpapers and a representative of your CPA firm should be available the week of January 27, 2003, for review at your offices.

Invoices covering examination fees and related expenses will be submitted to the appropriate company official in accordance with standard Departmental policy. Payment of any examination charges so invoiced are due within two business days following presentation of the invoice.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard L. Ford". The signature is fluid and cursive, with the first name "Richard" being more prominent than the last name "Ford".

Richard L. Ford, CFE, CIE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosures

cc: Jack M. Brown, CFE, CIE
Mary Packard, CFE, Examiner-in-Charge
Glenda Daniel, Analyst

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Victor D. Adams
President
Red Mountain Casualty Insurance
Company Inc.
100 Brookwood Place Suite 500
Birmingham, AL 35209

2. Article Number (Copy from service label)

7000 1670 0006 3511 9763

PS Form 3811, July 1999

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery

Leslie McGaughey 12-23-0

C. Signature

*Leslie McGaughey

☒ Agent☐ Addressee

D. Is delivery address different from item 1?

☐ Yes

If YES, enter delivery address below:

☐ No

3. Service Type

☒ Certified Mail☐ Express Mail☐ Registered☒ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

Domestic Return Receipt

102595-00-M-0952



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

December 18, 2002

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
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JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

Mr. Glen Taylor
Taylor-Walker & Associates, Inc.
Actuarial Consulting Group
P. O. Box 156
40 North Main
Midvale, UT 84047

Re: Examination of Red Mountain Casualty Insurance Company, Inc.
As of December 31, 2002

Dear Mr. Taylor:

This letter is to request and authorize your participation in the examination of the above referenced company for the purpose of computing reserves and making other valuations in your usual manner.

The examination will begin on or about January 27, 2003. The examination for this company is being conducted in the company's offices at 100 Brookwood Place, Suite 500, Birmingham, AL 35209, and will cover the period ending December 31, 2002. The expected duration of the examination is approximately six months.

The Examiner-in-Charge will be Ms. Mary Packard. Please contact her at the company after the beginning date to coordinate the scheduling of your portion of this examination. The company telephone number is (205) 877-4400.

If your schedule does not permit you to accept this assignment, please let me know so that other arrangements can be made.

Thank you for your assistance in this matter.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

cc: Jack M. Brown, CFE, CIE
Mary Packard, CFE, Examiner-in-Charge
Glenda Daniel, Analyst

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Glen Taylor
Taylor-Walker & Associates Inc
Actuarial Consulting Group
P O Box 156
40 North Main
Midvale UT 84047

2. Article Number (Copy from service label)

7000 1670 0006 3511 9770

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery

C. Signature

X

☐ Agent☐ Addressee

D. Is delivery address different from item 1?

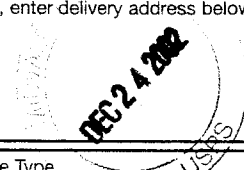
If YES, enter delivery address below:

☐ Yes☐ No

3. Service Type

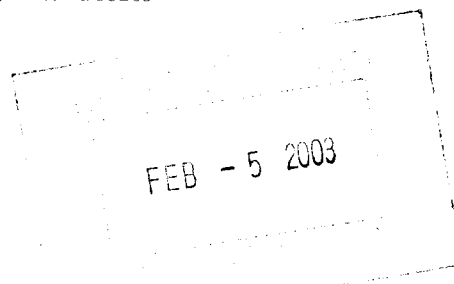
☒ Certified Mail☐ Express Mail☐ Registered☒ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

January 28, 2003

Mary B. Packard
Alabama Insurance Department
P.O. Box 303351
Montgomery, AL 36130-3351



Dear Madam:

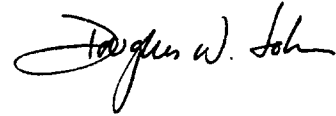
In connection with the regulatory examination of the Red Mountain Casualty Insurance Company, Inc., formerly ProNational Casualty Company, ("the Company") by the Alabama Insurance Department ("the Department"), the Department has requested that we allow it access to our working papers prepared in connection with our audit of the 2001 statutory-basis financial statements of the Company.

In connection with the issuance of our auditors' report on the Company's 2001 statutory-basis financial statements, we issued a qualifications letter dated February 22, 2002 to the Company, which the Company filed with the Illinois Insurance Department. That letter, along with the 2001 statutory-basis financial statements, was then filed with the Alabama Insurance Department upon redomestication to Alabama by the Company. Our audit was conducted with the objectives, and subject to the limitations, stated in that letter. That letter indicates, among other things, that we would make our working papers available to the Illinois Insurance Department.. We have not audited any financial statements of the Company since December 31, 2001, nor have we performed any audit procedures since February 22, 2002, the date of our auditors' report, and significant events or circumstances may have occurred since that date. In addition, any notations, comments, and individual conclusions appearing on any of the audit working papers do not stand alone, and should not be read as an opinion on any individual amounts, accounts, balances or transactions.

Our working papers constitute and reflect work performed or information obtained by Ernst & Young LLP in its capacity as independent auditors for the Company. The documents contain trade secrets and confidential commercial and financial information of our firm and the Company that is privileged and confidential, and we expressly reserve all rights with respect to disclosures to third parties who are not directly involved in the examination of the statutory-basis financial statements as of December 31, 2001 and for the year then ended. Accordingly, we request confidential treatment under the Freedom of Information Act or similar laws and regulations, to the extent that laws or regulations do not preclude such treatment, when requests are made for the working papers or information contained in them or any documents created by the Department or those acting on its behalf containing information derived from them. We further request that written notice be given to our firm before distribution of the information in the working papers (or photocopies of them) to others, including other governmental agencies, except when such distribution is required by law or regulation.

Any photocopies of our working papers we agree to provide you will be identified as
"Confidential Treatment Requested by Ernst & Young LLP 1901 6th Avenue North, Suite
1900, Birmingham, AL 35203, (205) 251-2000."

Very truly yours,
Ernst & Young LLP

A handwritten signature in black ink, appearing to read "Douglas W. Johnson". The signature is fluid and cursive, with the first name "Douglas" being more prominent and the last name "Johnson" following in a similar style.

Douglas W. Johnson
Partner



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A BELL
COMMISSIONER
ASSISTANT COMMISSIONER
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DEPUTY COMMISSIONER
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D DAVID PARSONS
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

February 6, 2003

Douglas W. Johnson
Ernst & Young LLP
AmSouth/Harbert Plaza
Suite 1900
1901 Sixth Avenue North
Birmingham, AL 35203

Re: Request for CPA Workpapers in December 31, 2002 Examination of Red Mountain
Casualty Insurance Company, Inc.

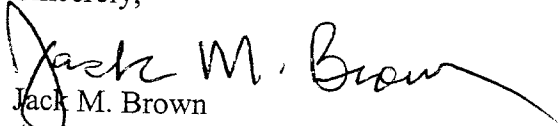
Dear Sir:

We received your January 28, 2003, letter regarding the request for inspection of the workpapers prepared in the referenced examination.

The request to inspect the workpapers is made by your client pursuant to Section 13 of Regulation 100. The letter of qualification your firm provided your insurer client should consent and agree to make available for review by the Commissioner, his designee or his appointed agent, the workpapers prepared in your examination. This agreement and consent is required by Section 12 of Regulation 100. Any copies of your firm's workpapers included in the Department's files will remain confidential to the extent provided under Alabama law.

If you have any questions, please advise.

Sincerely,


Jack M. Brown
Assistant Chief Examiner

cc: Richard Ford
Mary Packard, Examiner-in-Charge

CERTIFICATE

Date: March 5, 2003

Attention: Mary B. Packard, CFE, Examiner-in-Charge

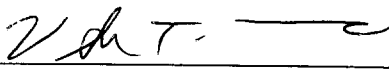
In connection with the examination of our records for the period from January 1, 1998 to December 31, 2002, we certify that to the best of our knowledge:

1. All borrowings have been recorded in the accounts.
2. No liabilities in the form of endorsements or guarantees of the obligations of others existed at December 31, 2002 except as noted below.
3. No liabilities or contingent liabilities in the form of financial commitments not in the regular course of ordinary business existed at December 31, 2002, except as noted below.
4. No liabilities or contingent liabilities in the form of purchase commitments or repurchase commitments for investments or assets at prices in excess of current market quotations existed at December 31, 2002, except as noted below.
5. None of the company's assets were pledged or hypothecated securities for liabilities of this Company or any other company, firm, or person except as noted below.
6. Except as noted below, the company holds (without claim of offset) valid and unquestioned title to all assets listed on the books of the company and the undersigned officers have no knowledge that any of the company's debtors lacked legal capacity or authority to execute any of the notes or contracts held by the company.

EXCEPTIONS: _____

I certify that the above is true and correct to the best of my knowledge. I am aware that failure to disclose all information requested above is in violation of ALA. CODE § 27-2-23 (1975), and is punishable as provided therein.

Red Mountain Casualty Insurance Company, Inc.



Victor Thomas Adamo
President



James Joseph Morello
Treasurer

July 11, 2003

Mary B. Packard, CFE
Examiner-In-Charge
Alabama Department of Insurance
P.O. Box 303351
Montgomery, AL 36130-3351

We are providing this letter in connection with your examination of the statutory financial statements of Red Mountain Casualty Insurance Company, Inc. as of December 31, 2002. We are responsible for the preparation of the statutory financial statements of financial position, results of operations, and changes in statutory financial position in conformity with the accounting practices prescribed or permitted by the Alabama Department of Insurance.

Certain representations in this letter are described as being limited to those matters that are material. Solely for the purpose of preparing this letter, the term "material", when used in this letter, means any item or group of similar items involving potential amounts of more than \$50,000. These amounts are not intended to represent the materiality threshold for financial reporting and disclosure purposes. Notwithstanding this, an item is considered material, regardless of size, if it involves an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it possible that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during the examination.

We have made available to you all:

- Statutory financial records and related data; and
- Minutes of meetings of stockholders, directors and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

There have been no:

- Fraud or other irregularities involving management or employees who have significant roles in the internal control structure;
- Fraud or other irregularities involving other employees that have or may have a material effect on the statutory financial statements;
- Fraud or other irregularities involving agents, MGA's, third party administrators, independent contractors, holding companies or other individuals or parties that have or may have a material impact on the statutory financial position of the Company; or

- Communication from regulatory agencies concerning noncompliance with, or deficiencies in, statutory financial reporting practices.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

The financial statements are free of material and intentional immaterial misstatements.

The following have been properly recorded or disclosed in the statutory financial statements:

- Any related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, except as reported in the 2002 Examination Report.
- All liabilities, both actual and contingent.
- Guarantees whether written or oral, under which the Company is contingently liable.
- Capital stock repurchase options or agreements on capital stock reserved for options, warrants, conversions, or requirements.
- Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
- Significant estimates and material concentrations known to management that are required to be disclosed in accordance with SSAP No. 1, *Disclosure of Accounting Policies, Risk and Uncertainties, or Other Disclosures*.
- Amount of credit risk and extent, nature, and terms of financial instruments with off-balance-sheet risk in accordance with SSAP No. 27.
- Agreements to repurchase assets previously sold.

We confirm the completeness of the information provided regarding the identification of related parties.

There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the statutory financial statements or as a basis for recording a loss contingency.

Contingent Liabilities:

- There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SSAP No. 5.
- There is no litigation against the Company that is considered material in relation to the statutory financial position of the Company. For purposes of this section, the Company has excluded litigation for which the only amounts sought relate to benefits within the normal terms of coverage under contracts of insurance issued by the Company, and which are otherwise considered in the actuarial determination of the Company's unpaid claim reserves.

Adequate provision has been made for adjustments and losses in collection of receivables.

Provision has been made for estimated retroactive adjustments by third-party payors under reimbursement agreements.

The Company is in compliance with bond indentures or other debt instruments.

Pending changes in the organizational structure, financing arrangements, or other matters that could have a material effect on the financial statements of the Company are properly disclosed.

The Company has properly classified all assets as admitted or nonadmitted in accordance with SSAP No. 4.

The Company has free and clear title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged except as disclosed in the annual statement.

We have reviewed long-lived assets and certain identifiable intangibles whenever changes in circumstances have indicated that the carrying amount of these assets might not be recoverable and have recorded the adjustment in accordance with SSAP No. 5.

Deferred tax assets and liabilities as reported in the financial statements comply and have been valued in accordance with SSAP No. 10, *Income Taxes*.

The Company has properly disclosed and recorded any premium deficiency reserves in accordance with SSAP No. 53.

Investments are appropriately recorded and valued as follows, except as disclosed in the 2002 Examination Report:

- Bonds – are recorded and disclosed in accordance with SSAP No. 26 and interpretation thereof.
- Preferred stocks – are recorded and disclosed in accordance with SSAP No. 32 and interpretations thereof.
- Common stocks – are recorded and disclosed in accordance with SSAP No. 30 and interpretations thereof. Common stock of subsidiaries and affiliated or controlled companies are recorded and disclosed in accordance with SSAP No. 46 and interpretations thereof.
- Short-term investments – are recorded and disclosed in accordance with SSAP No. 2 and interpretations thereof.
- Real estate – are recorded and disclosed in accordance with SSAP No. 40 and interpretations thereof.

The Company's liabilities for unpaid losses and loss adjustment expenses are based on and recorded at management's best estimate in accordance with SSAP No. 55.

Agents' balances or uncollected premiums have been recorded and disclosed in accordance with SSAP 6, except as discussed in the 2002 Examination Report.

There were no material commitments for construction or acquisition of property, plant and equipment, or to acquire other noncurrent assets, such as investments or intangibles.

We have complied with all aspects of contractual agreements that would have a material effect on the statutory financial statement in the event of noncompliance.

There are no material transactions that have not been properly recorded in the accounting records underlying the statutory financial statements.

All required returns and statutory reporting requirements have been filed on a timely basis with the appropriate regulatory bodies, except as discussed in the 2002 Examination Report.

All material reinsurance transactions have been recorded and disclosed in accordance with SSAP No. 62.

The Company has properly disclosed and recorded all changes in accounting principles in accordance with SSAP No. 3.

The Company has recorded and disclosed subsequent events in accordance with SSAP No. 9.

The Company is aware of the employment of or a business relationship with a "prohibited person" as defined in The Violent Crime Control and Law Enforcement Act of 1994: United States Code, Section 1033 (e)(1)(A). However, the Company had obtained a temporary waiver for the employee and is seeking a permanent waiver at the time this letter was signed.

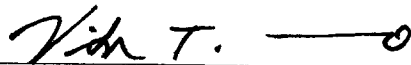
We agree with the findings of specialists in evaluating the Loss and LAE Reserves and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work.

The Company has recorded and disclosed benefit plans and defined contribution plans in accordance with SSAP No. 8.

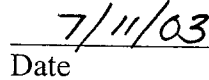
The Company has recorded and disclosed postretirement benefits other than pensions in accordance with SSAP No. 14.

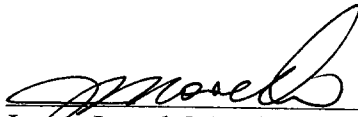
We understand that your examination was made in accordance with standards established by the Alabama Department of Insurance, and procedures established by *the National Association of Insurance Commissioners*, and accordingly included such tests of the accounting records and such other procedures as considered necessary under the circumstances.

Red Mountain Casualty Insurance Company, Inc.

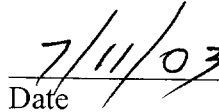


Victor Thomas Adamo
Chief Executive Officer


Date



James Joseph Morello, C.P.A.
Chief Financial Officer


Date



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

August 26, 2003

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Victor D. Adams
President
Red Mountain Casualty Insurance Company, Inc.
100 Brookwood Place, Suite 500
Birmingham, AL 35209

RE: Red Mountain Casualty Insurance Company, Inc.
Report of Examination as of December 31, 2002

Dear Mr. Adams:

Enclosed is a copy of the Report of Examination of the above-cited company as of December 31, 2002. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE, CIE
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE, CIE
Mary Packard, CFE
Glenda Daniel

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

**Mr. Victor D. Adams
President
Red Mountain Casualty Insurance Co Inc
100 Brookwood Place Suite 500
Birmingham AL 35209**

2. Article Number (Copy from service label)

7002 2030 0000 9484 1772

PS Form 3811, July 1999

Domestic Return Receipt

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery

Kevin MASSEY

C. Signature

X Kevin Massey

☐ Agent
☐ Addressee

D. Is delivery address different from item 1?

If YES, enter delivery address below:

☐ Yes
☐ No

3. Service Type

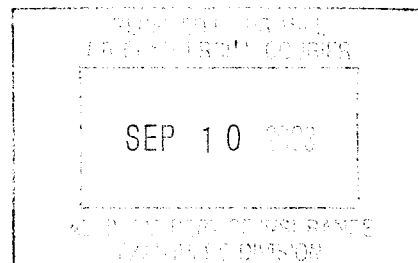
☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

102595-00-M-0952

September 9, 2003



Mr. Richard Ford, Chief Examiner
State of Alabama
Department of Insurance
201 Monroe Street, Suite 1700
P O Box 303351
Montgomery, Alabama 36130-3351

RE: Red Mountain Casualty Insurance Company, Inc.
Report of Examination as of December 31, 2002

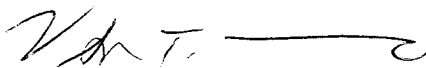
Dear Mr. Ford:

Thank you for your letter of August 26, 2003 containing the above mentioned report.

Please be advised that Red Mountain Casualty Insurance Company, Inc. will not be requesting a hearing in conjunction with the Report of Examination as of December 31, 2002.

Thank you for the Department's efforts in conjunction with this report.

Sincerely,



Victor T. Adamo
President

VTa/kn

cc: Jack M. Brown, CFE, CIE
Mary Packard, CFE
Glenda Daniel



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
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WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
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JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA

IN THE MATTER OF:)
FINANCIAL CONDITION EXAMINATION OF)
RED MOUNTAIN CASUALTY INSURANCE COMPANY INC)
AS OF DECEMBER 31, 2002)

ORDER

ON THE 25th day of September, 2003, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Red Mountain Casualty Insurance Company, Inc. is a domestic insurer licensed for property and miscellaneous casualty, excluding official surety bonds in the State of Alabama.

ORDER
FINANCIAL CONDITION EXAMINATION
PAGE 2

FINDINGS OF FACT

1. That on August 22, 2003, the verified Financial Condition Examination Report of Red Mountain Casualty Insurance Company, Inc. was filed with the Insurance Department.

2. That following receipt of the December 31, 2002 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.

3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.

4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2002 Financial Condition Examination Report of Red Mountain Casualty Insurance Company, Inc. shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

**ORDER
FINANCIAL CONDITION EXAMINATION
PAGE 3**

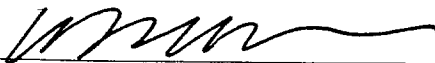
ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2002 Financial Condition Examination Report of Red Mountain Casualty Insurance Company, Inc. is hereby Adopted.
2. That Red Mountain Casualty Insurance Company, Inc. file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Red Mountain Casualty Insurance Company, Inc. file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That Red Mountain Casualty Insurance Company, Inc. shall comply with the recommendations set forth in the Report of Examination, and that failure by Red Mountain Casualty Insurance Company, Inc. to so comply may result in sanctions or administrative action; and further, that Red Mountain Casualty Insurance Company, Inc. shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 25th day of September, 2003.

(SEAL)



Walter A. Bell
Insurance Commissioner
201 Monroe Street, Suite 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of _____ Company, do hereby certify that the Report of Examination of _____ Company as of _____, _____, was filed with all states in which _____ Company is licensed, and with the office of the National Association of Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the ____ day of _____, 2003.

Seal

Notary

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. ~~James~~ D. Adamo
President
Red Mountain Casualty Insurance
100 Brookwood Place Suite 500
Birmingham, AL 35209

2. Article Number (Copy from service label)

7002 2030 0000 9484 0782

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

B. Date of Delivery

C. Signature

X *J. Mass*

☐ Agent☐ Addressee

D. Is delivery address different from item 1?

☐ Yes

If YES, enter delivery address below:

☐ No

Co Inc

3. Service Type

☒ Certified Mail☐ Express Mail☐ Registered☒ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

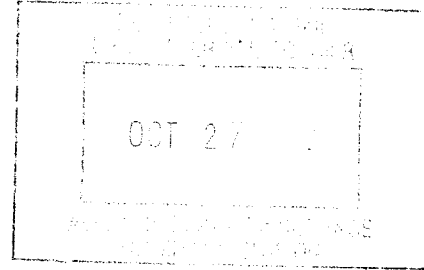
4. Restricted Delivery? (Extra Fee)

☐ Yes

*Copy to [unclear]
2) J. Hutto
3) H. G. W.
report*

October 24, 2003

Mr. Walter A. Bell
Insurance Commissioner
201 Monroe Street, Suite 1700
Montgomery, Alabama 36130



RE: Report of Examination on Red Mountain Casualty Insurance Company,
Inc. for the five years ended December 31, 2002

Dear Commissioner Bell:

In connection with the above referenced report, we are submitting our responses to the recommendations contain therein. As used in this letter; Department refers to the Alabama Department of Insurance, and Company refers to Red Mountain Casualty Insurance Company, Inc.

Corporate Records – Page 5

The Department recommends that the Company have By-Laws for the State of Alabama and submit a certified copy to the commissioner for approval in accordance with ALA. CODE §27-27-22 (1975).

Response: The Company will amend its By-Laws for the State of Alabama and submit a certified copy to the commissioner for approval.

The Department recommends that the Company either comply with current By-Laws by having at least three members on their Executive Committee, dissolve such committee or amend the By-Laws.

Response: The Company will comply with the current By-Laws by appointing at least three members on the Executive Committee.

The Department recommends that the Company comply with their Amended and Restated By-Laws and require two or more signatures on checks in the amount of \$5,000 or greater.

Response: The Company will amend the Amended and Restated By-Laws to eliminate the requirement for two or more signatures in the amount of \$5,000 or greater.

Accounts and Records – Page 11

The Department recommends that the Company establish an Electronic Records Retention Policy. This policy should be established in accordance with the minimum retention requirements of Alabama Department of Insurance Regulation Number 118 and with the IRS Revenue Procedure 1998.

Response: The Company will establish an Electronic Records Retention Policy in accordance with the minimum retention requirements of Alabama Department of Insurance Regulation Number 118 and with the IRS Revenue Procedure 1998.

The Department recommends that the Disaster Recovery Plan be tested completely and have formal written documentation of the results on file.

Response: The Company is in the process of finalizing its comprehensive Disaster Recovery Plan and intends to test it completely as soon as practicable. Written documentation of the testing results will be kept on file.

Bonds – Page 17

The Department recommends that the Company have, and maintain, all assets in the state of Alabama in accordance with ALA. CODE §27-27-29 (b) (1975).

Response: The asset in reference was an Illinois State mandated statutory deposit required when the Company was domiciled in Illinois. The asset was moved to the State of Alabama on January 6, 2003 after the Company had been redomiciled to Alabama and all necessary paperwork was completed for the State of Illinois to release the funds. The Company believes this was an isolated incident and will continue to have, and maintain, all assets in the state of Alabama in accordance with ALA. CODE §27-27-29 (b) (1975).

Cash – Page 17

The Department recommends that the Company list all Class One Money Market Mutual Funds on Schedule DA - Part 1 as required by the NAIC Annual Statement Instructions.

Response: The Company will comply with recommendation.

The Department recommends that the Company receive as collateral transferred securities having a fair value at least equal to 102% of the purchase price paid as required by SSAP No. 45, paragraph 8.

Response: The Company has implemented procedures to provide that collateral of 102% of the purchase price is given.

Payable to parent, subsidiary and affiliate – Page 17

The Department recommends that the Company accurately post transactions to the proper account.

Response: The Company will comply with recommendation.

The Department recommends that the Company only pay intercompany expenses to related parties that are included in their Management Services Agreement or Expense Allocation Agreement or revise its agreements to include all fees which are charged through said agreement and file such agreement with the Alabama Department of Insurance in accordance with Regulation 55.

Response: The Company believes one of the transactions was made in error and the other took place shortly before the existence of the intercompany agreements due to the fact that the Company was dormant for several years prior to third quarter 2002. The Company filed with the Alabama Commissioner two intercompany agreements to be effective January 1, 2003. Going forward, the Company will only pay intercompany expenses to related parties that are included in its Management Services Agreement or Expense Allocation Agreement.

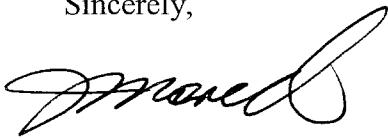
Common capital stock – Page 18

The Department recommends that the Company maintain a stock ledger showing the number of preferred and common stock shares issued and outstanding.

Response: The Company has always been a wholly owned subsidiary. The Company will maintain a stock ledger showing the number of preferred and common stock shares issued and outstanding.

We appreciate the Department's efforts in conjunction with this exam and we are available to address any questions and provide additional information if needed.

Sincerely,

A handwritten signature in black ink, appearing to read 'James J. Morello', written in a cursive style.

James J. Morello
Treasurer

CERTIFICATION

I, Victor T. Adamo, President (office) of
Red Mountain Casualty Insurance Inc Company, do hereby certify that the Report of Examination of
Red Mountain Casualty Insurance Inc Company, as of October 24, 2003, was filed with all states in
which Red Mountain Casualty Ins Inc Company is licensed, and with the office of the National Association of
Insurance Commissioners.

Victor T. Adamo
By: _____

Sworn and subscribed before the undersigned authority on the 24th day of October, 2003.

Seal

Kathryn A. Nevill
Notary

My Commission Expires 3-13-06



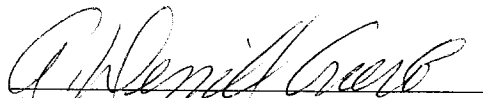
Red Mountain
CASUALTY

A ProAssurance Company

866/686-4666
Fax 205/414-2890
www.ProAssurance.com

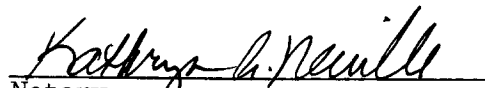
AFFIDAVIT

I, A. Derrill Crowe, director of Red Mountain Casualty Insurance Company, Inc., do hereby certify that I have received and reviewed the Report of Examination of Red Mountain Casualty Insurance Company, Inc. as of December 31, 2002 as adopted and all related orders.


A. Derrill Crowe, M.D.

Dated: October 23, 2003

Sworn and subscribed before the undersigned authority on the 24th day of October, 2003.

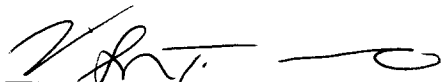

Notary

Seal

My Commission Expires 3-13-06

AFFIDAVIT

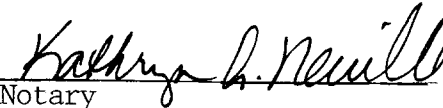
I, Victor T. Adamo, director of Red Mountain Casualty Insurance Company, Inc., do hereby certify that I have received and reviewed the Report of Examination of Red Mountain Casualty Insurance Company, Inc. as of December 31, 2002 as adopted and all related orders.



Victor T. Adamo

Dated: October 23, 2003

Sworn and subscribed before the undersigned authority on the 24th day of October, 2003.



Notary

Seal

My Commission Expires 3-13-06



Red Mountain
C A S U A L T Y

A ProAssurance Company

866/686-4666
Fax 205/414-2890
www.ProAssurance.com

A F F I D A V I T

I, Howard H. Friedman, director of The Medical Assurance Company, Inc., do hereby certify that I have received and reviewed the Report of Examination of Red Mountain Casualty Insurance Company, Inc. as of December 31, 2002 as adopted and all related orders.

Howard H. Friedman

Dated: October 23, 2003

Sworn and subscribed before the undersigned authority on the 24th day of October, 2003.

Notary

Seal

My Commission Expires 3-13-06